

Statement by
William T. Hawks
Under Secretary of Agriculture
for Marketing and Regulatory Programs
Before the
House Subcommittee on Agriculture, Rural Development,
Food and Drug Administration and Related Agencies

March 4, 2004

Mr. Chairman and members of the Committee, I am pleased to appear before you to discuss the activities of the Marketing and Regulatory Programs of the U.S. Department of Agriculture and to present our fiscal year (FY) 2005 budget proposals for the Animal and Plant Health Inspection Service (APHIS), the Grain Inspection, Packers and Stockyards Administration (GIPSA), and the Agricultural Marketing Service (AMS).

With me today are Dr. Charles Lambert, Deputy Under Secretary for MRP; Mr. Bobby Acord, Administrator of APHIS; Mrs. Donna Reifschneider, Administrator of GIPSA, and Mr. A. J. Yates, Administrator of AMS. They have statements for the record and will answer questions regarding specific budget proposals.

Under my leadership, the Marketing and Regulatory Programs have addressed several broad goals and objectives to increase marketing opportunities and to protect American agriculture from damages caused by pests and diseases.

First, Building Broader Bridges. We strengthened cooperation and strategic partnerships with farmers and ranchers, States, foreign governments, congressional offices, agricultural commodity and industry associations, agricultural scientific groups, and other interested parties. We want to ensure that our policies and programs provide the most benefits they can to the affected people which demonstrates that working together works.

Second, Moving More Product. We expanded domestic and international market opportunities for U.S. agriculture products including value enhanced products and products of biotechnology. We have worked closely with the Foreign Agricultural Service and the U.S. Trade Representative to aggressively and creatively resolve sanitary, phytosanitary, biotechnology, grain inspection, commodity grading and other trading issues that limit our potential for growth in international trade.

Third, Investing in Infrastructure. We invested in stronger border security, pest and disease surveillance and monitoring, laboratory capacity such as the National Veterinary Science Lab in Ames, Iowa. We increased market news on export markets, made improvements in e-Government, enhanced investigations of anti-competitive market practices and provided greater support for biotechnology. Agriculture that is healthy, both biologically and economically, is a marketable agriculture.

Fourth, Growing Our People. We made a concerted effort to recruit, recognize and reward accomplishment and inspire current and future leaders within MRP. We are making MRP a place where the best and brightest want to be, including promising men and women in diverse fields such as journalism, accounting, and economics.

Fifth, Selling Agriculture as a Profession. We are creatively marketing the vital role that agriculture plays in every American's life to assist our efforts to recruit and retain the highest caliber workforce for MRP and USDA.

FUNDING SOURCES

The Marketing and Regulatory Program activities are funded by both the taxpayers and beneficiaries of program services. The budget proposes that the MRP agencies carry out programs costing \$1.8 billion; with \$418 million funded by fees charged to the direct beneficiaries of MRP services and \$449 million from Customs receipts.

On the appropriation side, under current law, the Animal and Plant Health Inspection Service is requesting \$828 million for salaries and expenses and \$5 million for repair and maintenance of buildings and facilities; the Grain Inspection, Packers and Stockyards Administration is requesting \$44 million, and the Agricultural Marketing Service is requesting \$87 million.

The budget again proposes user fees that, if enacted, would recover about \$40 million. Legislation was submitted in 2003 which would authorize new license fees to recover the cost of administering the Packers and Stockyards (P&S) Act and authorize additional grain inspection fees for developing grain standards. Legislation will be submitted soon to enable additional license fees for facilities regulated under the Animal Welfare Act. I will use the remainder of my time to highlight the major activities and our budget requests for the Marketing and Regulatory Programs.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

The fundamental mission of APHIS is to anticipate and respond to issues involving animal and plant health, conflicts with wildlife, environmental stewardship, and animal well-being. Together with their customers and stakeholders, APHIS promotes the health of animal and plant resources to facilitate their movement in the global marketplace and to ensure abundant agricultural products and services for U.S. customers. We believe that safeguarding the health of animals, plants, and ecosystems makes possible safe agricultural trade and reduces losses to agricultural and natural resources.

APHIS builds bridges by working in concert with its stakeholders—States, Tribes, industry, and the public—to maintain and expand export market opportunities and to prevent the introduction and/or to respond to new threats of plant and animal pests and diseases. APHIS invests in the agricultural marketing infrastructure that helps protect the agricultural sector from pests and diseases while at the same time moving more U.S. product.

I would like to highlight some key aspects of the APHIS programs:

Safeguarding the Agricultural Sector and Resource Base. While APHIS continues to work closely with the Department of Homeland Security (DHS) to exclude agricultural health threats, it retains responsibility for promulgating

regulations related to entry of passengers and commodities into the United States. APHIS' efforts have helped keep agricultural health threats away from US borders through increased offshore threat-assessment and risk-reduction activities. APHIS has also increased an already vigilant animal and plant health monitoring and surveillance system to promptly detect outbreaks of foreign and endemic plant and animal pests and diseases.

Management Programs. Because efforts to exclude foreign pests and diseases are not 100 percent successful, APHIS also assists stakeholders in managing new and endemic agricultural health threats, ranging from threats to aquaculture to cotton and other crops, tree resources, livestock and poultry. In addition, APHIS assists stakeholders on issues related to conflicts with wildlife and animal welfare.

Moving More Product. The Trade Issues Resolution and Management efforts are key to ensuring fair trade of all agricultural products. APHIS' staff negotiates sanitary and phytosanitary (SPS) standards, resolves SPS issues, and provides clarity on regulating imports and certifying exports which improves the infrastructure for a smoothly functioning market in international trade. Ensuring that the rules of trade are based on science helps open markets that have been closed by unsubstantiated SPS concerns. APHIS' efforts contributed to the opening or retention of \$2.5 billion in export markets in FY 2003 by helping resolve individual trade issues abroad.

Biotechnology. Recent developments in biotechnology underscore the need for effective regulation to ensure protection of the environment and food supply, reduce market uncertainties, and encourage development of a technology that holds great promise. APHIS' Biotechnology Regulatory Services unit coordinates our services and activities in this area and focuses on both plant-based biotechnology and transgenic arthropods. We also are examining issues related to transgenic animals.

APHIS' 2005 Budget Request

In a year of many pressing high-priority items for taxpayer dollars, the budget request proposes about \$828 million for salaries and expenses. There are substantial increases to support the Administration's Food and Agriculture Defense Initiative and to protect the agriculture sector from bovine spongiform encephalopathy (BSE). A brief description of key initiatives follows.

A total of about \$173 million for Foreign Pest and Disease Exclusion. Efforts will be focused on enhancing our ability to exclude Mediterranean fruit fly and foreign animal diseases. We also request funds to regulate the possession and transfer of Select Agents, toxins and pathogens necessary for research and other beneficial purposes which could be deadly in the hands of terrorists.

A total of about \$224 million for Plant and Animal Health Monitoring. APHIS plays a critical role in protecting the Nation from deliberate or unintentional introduction of an agricultural health threat, and the budget requests \$94 million, a \$49 million increase, as part of the Food and Agriculture Defense Initiative. This includes initiatives that enhance plant and animal health threat monitoring and surveillance; bolster a National Animal Identification Program; ensure greater cooperative surveillance efforts with States; improve connectivity with the integration and analysis functions at DHS for plant and animal health threats; and boost animal vaccine availability; and other efforts. In addition, \$50 million is requested for bovine spongiform encephalopathy (BSE) activities to accelerate the development of a National animal ID effort and to increase testing to detect the presence of BSE in the US livestock herd.

A total of \$320 million for pest and disease management programs. Once pests and disease are detected, prompt eradication reduces longterm damages. In cases where eradication is not feasible (e.g., European gypsy moth), attempts are made to slow the advance, and damages, of the pest or disease. APHIS provides technical and financial support to help control or eradicate a variety of agricultural threats.

The budget proposes \$57 million of increased funding for efforts against low-pathogenic avian influenza, emerging plant pests (such as Citrus Canker and Emerald Ash Borer), tuberculosis, scrapie, and chronic wasting disease.

Other programs offer offsets to those increases. Successes in boll weevil eradication efforts allow a reduction in that program. Decreased funding is requested for Asian Long-horned Beetle based on the ongoing levels of State contributions. Funding is reduced for Johne's Disease since it is rather endemic and funds need to be rationed for other program needs. The budget also assumes that State cooperators will fund a greater share of wildlife management programs.

A total of \$17 million for the Animal Care programs. APHIS will maintain its animal welfare and horse protection programs. The budget includes a proposal, similar to FY 2004, to collect \$10.9 million in additional fees charged to facilities and establishments required to be registered under the Animal Welfare Act but not currently subject to a fee. This includes research facilities, carriers, and in-transit handlers of animals. Since these facilities are the direct beneficiaries of taxpayer assistance, it is appropriate that a portion of the costs be funded by these beneficiaries.

A total of about \$82 million for Scientific and Technical Services. Within USDA, APHIS has chief regulatory oversight of genetically modified organisms. To help meet the needs of this rapidly evolving sector, the budget includes a request to, in part, enhance the regulatory oversight of field trials of crops derived with biotechnology. Also, APHIS develops methods and provides diagnostic support

to prevent, detect, control, and eradicate agricultural health threats, and to reduce wildlife damages (e.g., coyote predation). It also works to prevent worthless or harmful animal biologics from being marketed.

A total of \$12 million for management initiatives. This includes building upon efforts started with Homeland Security Supplemental funds for improving physical and operational security, It also includes providing the State Department funds to help cover higher security costs for APHIS personnel abroad. A portion of the increase would also be used for enhanced computer security and eGov initiatives.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

GIPSA's mission is to facilitate the marketing of livestock, meat, poultry, cereals, oilseeds, and related agricultural products and to promote fair and competitive trade for the benefit of consumers and American agriculture. It helps move more U.S. product both domestically and abroad by investing in domestic infrastructure that supports marketing within the grain and livestock industry. GIPSA fulfills this through both service and regulatory functions in two programs: the Packers and Stockyards Programs (P&SP) and the Federal Grain Inspection Service (FGIS).

Packers and Stockyards Programs. The strategic goal for P&SP is to promote a fair, open and competitive marketing environment for the livestock, meat, and poultry industries. Currently, with 166 employees, P&SP monitors the livestock, meatpacking, and poultry industries, estimated by the Department of Commerce to have an annual wholesale value of over \$118 billion. Legal specialists and economic, financial, marketing, and weighing experts work together to monitor emerging technology, evolving industry and market structural changes, and other issues affecting the livestock, meatpacking, and poultry industries that the Agency regulates.

We conducted over 1,700 investigations in FY 2003 to enforce the Packers and Stockyards Act for livestock producers and poultry growers, of which about 95 percent were closed in a year. Financial recoveries were \$27.2 million.

The Swine Contract Library began operation on December 3, 2003. Producers can see contract terms, including, but not limited to, the base price determination formula and the schedules of premiums or discounts, and packers' expected annual contract purchases by region. Since December 3, GIPSA has experienced approximately 27 "hits" each day to view the Contract Summary reports and approximately 6 "hits" per day to view the Monthly reports.

Federal Grain Inspection Service. FGIS facilitates the marketing of U.S. grain and related commodities under the authority of the U.S. Grain Standards Act and

the Agricultural Marketing Act of 1946. As an impartial, third-party in the market, we advance the orderly and efficient marketing and effective distribution of U.S. grain and other assigned commodities from the Nation's farms to domestic and international buyers. We are part of the infrastructure that undergirds the agricultural sector.

GIPSA works with government and scientific organizations to establish internationally recognized methods and performance criteria and standards to reduce the uncertainty associated with testing for the presence of biotechnology grains and oil seeds. It also provides technical assistance to exporters, importers and end users of US grains and oilseeds, as well as other USDA agencies, USDA Cooperator organizations, and other governments. These efforts help facilitate the sale of US products in international markets.

Our efforts to improve and streamline our programs and services are paying off for our customers, both in terms of their bottom lines and in greater customer satisfaction. FGIS' service delivery costs average \$0.30 per metric ton, or approximately 0.23 percent of the \$14 billion value of US grain exports. In FY 2003 alone, more than 1.8 million inspections were performed on more than 222 million tons of grains and oilseeds.

One indicator of the success of our outreach and educational initiatives is the number of foreign complaints lodged with FGIS regarding the quality or quantity

of U.S. grain exports. In FY 2003, FGIS received only 13 quality complaints and no quantity complaints from importers on grains inspected under the U.S. Grain Standards Act. These involved 229,587 metric tons, or about 0.2 percent by weight, of the total amount of grain exported during the year.

GIPSA's 2005 Budget Request

For 2005, the budget proposes a program level for salaries and expenses of \$44 million. Of this amount, \$20 million is devoted to grain inspection activities for standardization, compliance, and methods development and \$24 million is for Packers and Stockyards Programs.

The 2005 budget includes the following program increases:

- \$1 million for rapid response teams to closely examine livestock marketing to ensure that producers are not unfairly disadvantaged by the BSE situation. USDA will use the funds to conduct market surveillance and ensure that marketing and procurement contracts are honored in the aftermath of the BSE finding.
- About \$5 million to significantly upgrade the agency's IT functions, including the ability to securely accept, analyze, and disseminate information relevant to the livestock and grain trades. About \$4 million is a one-time increase for investment. Currently, GIPSA receives more than 2.5 million submissions

from stakeholders, all of which are done on paper. The request also includes \$150,000 to maintain the Swine Contract Library.

- \$1.2 million to monitor the various technologies that livestock and meatpacking industries use to evaluate carcasses to ensure fair and consistent use of those technologies. Producer compensation is increasingly dependent not simply on the weight of the animals they bring to slaughter, but the characteristics of the carcasses as well (e.g., fat content).
- \$0.5 million to enable GIPSA to better address and resolve international grain trade issues, thus precluding disruption of US exports. GIPSA has experienced a growing demand for cooperative participation with other agencies with international trade responsibilities to help expand markets for U.S. agricultural products and removing barriers to trade.

New user fees. New user fees, similar to those proposed for FY 2004, would be charged to recover the costs of developing, reviewing, and maintaining official U.S. grain standards used by the grain industry. Those who receive, ship, store, or process grain would be charged fees estimated to total about \$6 million to cover these costs. Also, the Packers and Stockyards program would be funded by new license fees of about \$23 million that would be required of packers, live poultry dealers, stockyard owners, market agencies and dealers, as defined under the Packers and Stockyards Act.

AGRICULTURAL MARKETING SERVICE

The mission of the AMS is focused on facilitating the marketing of agricultural products in the domestic and international marketplace, ensuring fair trading practices, and promoting a competitive and efficient marketplace to the benefit of producers, traders, and consumers of U.S. food and fiber products. The Agency accomplishes this mission through a wide variety of publicly and user funded activities that help their customers improve the marketing of their food and fiber products and ensure that food and fiber products remain available and affordable to consumers. The following are just some of the ways that AMS is doing its job better in serving its customers.

Customer Service and Technology. AMS continues to improve its service delivery by taking advantage of new technology to improve public electronic access to information and services and to increase operational efficiency. For example, the Livestock Mandatory price reporting system processes huge amounts of raw data received from slaughter facilities that report their transactions involving purchases of livestock and sales of boxed beef and lamb, lamb carcasses, and imported boxed lamb cuts. These data, including prices, contracts for purchase, and other related information, are publicly disseminated in over 100 daily, weekly, and monthly reports on fed cattle, swine, lamb, beef and lamb meat. AMS continues to make enhancements to existing reports and to introduce new reports in consultation with industry stakeholders.

In 2003, AMS began offering automatic e-mail delivery of comprehensive Market News information to subscribers. This free email subscription service, provided in partnership with the Mann Library at Cornell University, provides access to nearly 1,500 daily, weekly and monthly market reports covering the six major AMS commodity groups. AMS also is developing a Market News web portal that will allow users to establish their own unique web pages through which they can immediately access preferred market news reports, have the capability to build specialized reports, and add customized features including nationwide weather reports and metric data conversions. Users will be able to access five years of data and download it in usable formats, including charts, spreadsheets, and graphs. The portal will be available to public users later this year for fruit and vegetable reports, and they hope to expand it to market reports for other commodities soon thereafter.

Partnerships. AMS depends on strong partnerships with cooperating State agencies and other Federal agencies to carry out many of our programs. State agency partners collect data, provide inspection, monitoring, and laboratory services for AMS, and otherwise maximize the value of both State and Federal resources through sharing and coordination. For instance, AMS' Market News program maintains cooperative agreements with 40 States to coordinate local market coverage with the regional and national coverage needed for AMS market reporting. State employees who inspect shipments of seed within a State provide information on potential violations in interstate shipments to AMS'

Federal Seed program. Thirty-three States and territories participate with AMS in Pesticide Recordkeeping education and record inspection activities and are reimbursed for their services. Furthermore, the Pesticide Data program depends on its 10-12 State and three Federal partners to collect and test the product samples on which the program results are based. In fact, the Pesticide Data program directs 80 percent of its funding to its State partners in reimbursement for services provided. Another source of support for State agriculture programs is AMS' Federal-State Marketing Improvement Program (FSMIP), otherwise known as the Payments to States Program. In 2003, AMS allocated FSMIP grant funds to 20 States for 28 projects of local and regional importance, such as marketing studies or developing innovative approaches to the marketing of agricultural products.

Under the National Organic program, AMS program personnel accredit State, private, and foreign certifying agents who certify that organic production and handling operations are in compliance with the national organic standards. As of February 2004, AMS received 137 applications for accreditation. Of these, the program has thus far accredited a total of 90 certifying agents, including 15 States, and 37 foreign certifying agents. AMS also administers two cost share programs through agreements with the States that help to offset certification costs for organic producers. Additional resources provided in fiscal year 2004 will allow us to strengthen our support of the National Organic Standards Board

activities, including technical advisory panel evaluations of materials and program evaluations—or peer reviews—and to strengthen program enforcement.

Market Analysis. In 2003, AMS supported wholesale or farmers market facility projects in Mississippi, Georgia, Florida, Oregon, Arizona, New York, Texas, American Samoa, Hawaii, and Kentucky. AMS also supports marketing and market technology research projects which were presented at numerous marketing conferences and workshops. AMS supports farmers markets by conducting research on emerging trends in market operations and practices and providing research reports, reference material and fact sheets to farm vendors, farm market managers, and the general public through the AMS website and a telephone hotline.

AMS' Transportation Services Program works with Federal, State, and local policy-makers to maintain an efficient national transportation system that supports the needs of farmers, agricultural shippers, and rural America. AMS conducts and sponsors economic studies of domestic and international transportation issues and provides technical assistance and information to producers, shippers, carriers, government agencies, and universities. Program experts have generated studies and reports on U.S. waterways, rail lines and rail car availability; rail and shipping rate analyses; geographically disadvantaged farmers and ranchers, and many others.

AMS transportation specialists are often called upon to provide information and advice when agricultural transportation is disrupted. After September 11, 2001, AMS has increasingly been asked to provide more analyses on transportation security for agricultural products. In 2003, AMS developed a Transportation Security Briefing Book using the information currently available. The book provides an overview of the agricultural transportation system, existing safety measures, and discusses the adverse effects of past disruptions in the system. While this is a good start, we have found that much more study is needed in this area for all modes of transport, but particularly for trucking, which moves 90 percent of agricultural freight for at least one segment of its transportation to destination.

Commodity Purchases. AMS works in close cooperation with both the Food and Nutrition Service (FNS) and the Farm Services Agency (FSA) to administer USDA commodity purchases that stabilize markets and support nutrition programs, such as the National School Lunch Program, the Emergency Food Assistance Program, the Commodity Supplemental Food Program, and the Food Distribution Program on Indian Reservations. To maximize the efficiency of food purchase and distribution operations, AMS, FNS, and FSA each provide a component of program administration according to their organizational structure and expertise, but the system is complex and requires close coordination. To better coordinate the operations between the three agencies and control the vast

array of details inherent to the procurement process, the Processed Commodities Inventory Management System (PCIMS) was developed more than ten years ago to track bids, orders, purchases, payments, inventories, and deliveries of approximately \$2.5 billion of commodities used in all food assistance programs every year and another \$1 billion in price support commodity products maintained in inventory. PCIMS is still being used by the three agencies with modifications having been made over the years, when feasible, to add capabilities such as financial tracking or to meet changes in program delivery.

AMS' 2005 budget request

For AMS, the budget proposes a program level of \$732 million, of which over 88 percent will be funded by user fees and Section 32 funds. The budget requests an appropriation of \$87 million for Marketing Services and Payments to States. The 2005 budget includes an increase of \$10 million in appropriated funds to improve the information technology systems used to manage and control commodity orders, purchases, and delivery. Under this proposal, PCIMS would be replaced by the Web-based Supply Chain Management System (WBSCM). Implementation of WBSCM will improve the efficiency of Federal procurement of commodities by reducing ordering and delivery times from 24 days to 5 days. The 2005 budget also includes an increase of \$0.3 million to conduct studies aimed at improving the security of the U.S. transportation system for agricultural commodities and supplies. The budget includes a decrease of \$2 million for

FSMIP to reflect a reduction for a one-time increase in 2004 for creation of specialty markets in Wisconsin.

CONCLUSION

This concludes my statement. I am looking forward to working with the Committee on the 2005 budget for the Marketing and Regulatory Programs. We believe the proposed funding amounts and sources of funding are vital to protecting American agriculture from pests and diseases, both unintentional and those caused by terrorist action, and for moving more product to foreign markets. It will provide the level of service expected by our customers -- the farmers and ranchers, the agricultural marketing industry, and consumers. We are happy to answer any questions.